

# Report to Michigan Legislature of The State Water Pollution Control Revolving Fund Advisory Committee

September 20, 2011

## Executive Summary

Public Act 231 of 2010 created an Advisory Committee to make recommendations to the Department of Environmental Quality (DEQ) and the legislature for achieving three outcomes:

1. Increasing the level of investment in sewage collection and treatment systems,
2. Providing incentives for action that not only improve water quality but result in pollution prevention, and
3. Optimizing the cost benefit ratio of alternative designs of sewage collection and treatment systems.

This executive summary lists the key findings and recommendations contained in the full Advisory Committee report.

## Key Findings

- Michigan is under-investing in its entire infrastructure system
- Underinvestment does not save tax payer dollars. It actually results in rapidly escalating costs.
- Implementation of the recommendations in this report will save taxpayer money and decrease long-term reliance on state and federal funding.
- There is a serious shortfall in fiscal resources needed to sustain Michigan's aging sewer systems.
- Federal government support for sewer infrastructure is minuscule compared to that of roads. Federal support for sewers is declining and will likely continue to decline.
- Sustained economic prosperity is tied to quality infrastructure and requires the state to invest heavily in protecting its greatest natural asset, water.
- The first step in this process is to use the \$654 million in remaining bond funds authorized by Michigan voters in 2002.
- Achieving the three outcomes stipulated in Public Act 231 of 2010 requires balancing the need to address urgent water quality problems with proactive investments in infrastructure that result in long-term cost savings.
- While all funding in the federally-subsidized State Revolving Fund (SRF) low-interest loan program is subject to federal oversight and requirements, funds derived from a state bond could be used in a separate loan program free of unnecessary, costly regulations.
- The recommendations in this report support Governor Snyder's initiatives to attract and retain Michigan businesses, and improve the quality of life for the State's residents.

## **Proposed Strategy for Achieving the Three Outcomes**

Proactive investments in infrastructure result in tremendous cost savings because assets are protected, last much longer, and perform much better. The recommendations in this report are premised on the need for a policy approach that emphasizes strategic investment of dollars in vital infrastructure to protect water quality as well as the creation of more long-term, self-sustained funding. There are two parts to this policy strategy.

Part 1: Creation of a state grant program and expanded use of a state loan program to stimulate investments that protect infrastructure assets and reduce long-term costs to the public.

Part 2: Institution of reforms to the existing SRF program to stimulate investments in large scale sewer system improvement projects that address chronic water quality problems.

### **Part 1 – Reducing the cost of infrastructure and increasing investment in critical water quality protection through creation of a state grant program and expanded use of a state loan program**

Michigan needs to invest much more heavily in the management of its sewer infrastructure assets. This keeps systems in good condition rather than allowing them to deteriorate to the point where they become extremely costly to repair or replace. The State also needs to facilitate the establishment of dedicated revenue streams that are based on the actual cost of services provided. Given the fiscal condition of local governments, incentivizing these actions through grant funding is critical.

#### **Part 1 Recommendations**

- Remaining funds from Proposal 2 of 2002 (approximately \$654 million) should be allocated over a five year period. This should be phased so that more of the funding is available in the later years.
- In each funding cycle, 50% of the funds available should be targeted toward implementing projects in a grant program consistent with Part 1 of this report and 50% for a loan program. Both should be implemented under the Strategic Water Quality Initiatives Fund (SWQIF), with provision to adjust this allocation in any given year based on demand.
- The loan program created under the SWQIF should be as simple as possible. The DEQ and the legislature should take steps to ensure that the state's loan program does not suffer the same ills as the federal program.
- The State must ensure that federal capitalization grants to the SRF are fully captured so no available dollars are left on the table. State match for these grants should be provided through the general fund. However, in the event that this funding source is unavailable in any given year, a portion of the Proposal 2 funds should be designated as match for the federal capitalization grant.
- Bonds from Proposal 2 of 2002 should be used to provide grants to local governments for:
  - Design, development and implementation of asset management plans or capital improvement programs for sanitary sewer and storm sewer infrastructure,

- Development of stormwater management plans or programs,
- Development and implementation of stormwater utilities, or
- Planning and design of sewer projects (similar to the grant program previously authorized by the legislature using Proposal 2 bond funds).
- The grant application process should be kept as simple as possible. Projects that meet eligibility criteria should be funded on a first-come, first-served basis.
- Legislation describing the acceptable manner for creation of a stormwater utility consistent with the Michigan Supreme Court's *Bolt vs. City of Lansing* decision needs to be adopted.

## **Part 2 – Increasing use of the State Revolving Fund program by streamlining requirements in the existing SRF program**

The goal of the recommendations in this category is to reduce the administrative burden on applicants and the DEQ so the process is easier and less costly to administer. This in turn will result in a greater number of projects being funded.

### **Part 2 Recommendations**

**Primary recommendation:** DEQ should work with a committee of stakeholders to revise the SRF program, using a process improvement approach, to ensure that a thorough list of recommendations is developed and appropriately vetted.

### **Part 2 Recommendations for DEQ and its stakeholder group to consider:**

- Revise the pre-application meeting process to allow potential applicants to evaluate the likelihood of funding prior to incurring significant costs.
- Evaluate and revise the criteria for selecting priority projects.
- Develop a checklist to determine which elements need to be addressed in the Project Plan for a specific application.
- Review the public participation requirements and consider options other than the mandatory requirement for a formal public hearing, with a transcript, prior to submitting the Project Plan.
- To the maximum extent possible, eliminate requirements to provide information on other state and federal laws and regulations for conformity.
- Create special financial incentives for "economic hardship" applicants, similar to those currently provided in the Drinking Water Revolving Fund program.
- If funds available exceed demand in any given year, the Committee urges the DEQ Director to lower interest rates in the subsequent funding cycle.



# State Water Pollution Revolving Fund Advisory Committee

## Report to Michigan Legislature

December 15, 2011

## Background

- Advisory Committee established under P.A. 231 of 2010
- Included business, environmental groups, local, regional and state government.

## Our Mission

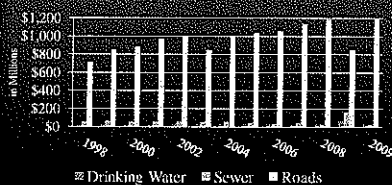
1. Increasing level of investment
2. Providing incentives for actions that improve water quality & result in pollution prevention
3. Optimizing cost benefit ratio of alternative sewage collection and treatment system designs

## Outcomes

- Wiser use of limited dollars
- Incentivize creation of stable local funding
- Making loans worth the effort
- More projects implemented
- Better protection of water quality
- Business attraction and retention
- More desirable communities

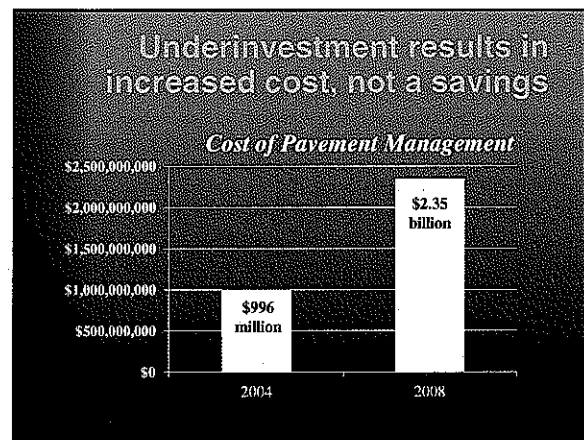
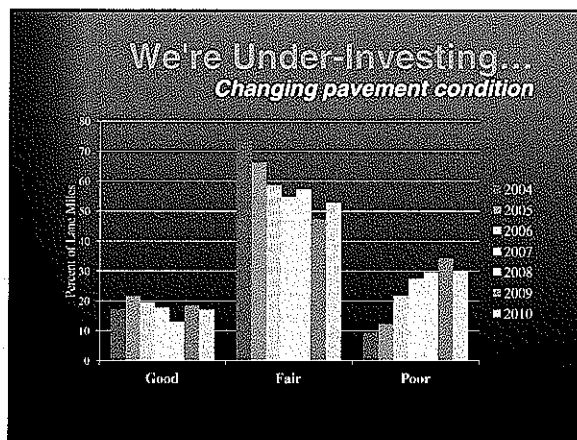
## One Slide History of Sewer Funding

- 1970s - Late 1980s: Large federal grants
- 1990s - Present: Low-interest loans



## Findings

- Michigan is under-investing in all its infrastructure
- This costs taxpayers additional money
- Serious shortfall exists in resources to sustain aging sewer systems
- Federal support is small and declining



### Findings

- Sustained economic prosperity is tied to reliable quality infrastructure

*"Michigan's water and sewer systems are vital to our economic prosperity."*

Governor Snyder  
Reinventing Michigan's Infrastructure

### Findings

- Asset management is critical
- Current loan program is full of federal red tape
- Stormwater management is now key to water quality

### Funding Already Approved by Voters

- Prop. 2 of 2002 - \$1 billion in bonds to improve quality of Michigan waters by financing:
  - Sewage treatment works projects
  - Storm water projects
  - Water pollution projects
- \$156M spent through Nov. 2010
- \$190M for brownfields and S2 in Dec. 2010
- \$654M remaining

### Recommendations

Use remaining \$654M in bond funds to:

- Fund state grant program (90/10) to:
  - Develop and implement asset management plans
  - Develop stormwater management plans
  - Develop and implement stormwater utilities and...

## Recommendations

- Cut the red tape: Create loan program under state jurisdiction
  - Free of cumbersome federal requirements
  - Will increase pace of investment in projects that improve & protect water quality

## Recommendations

- Cut the red tape: Reform existing SRF program:
  - Streamline application process
  - Stimulate more projects
  - Form stakeholder group to work out details

## Outcomes

- Wiser use of limited dollars
  - Assess condition
  - Prioritize needs
  - Lower costs thru proactive maintenance
  - Referred to as Asset Management

## Outcomes

- Incentivize creation of stable local funding
- Make loans worth the effort
- More projects implemented
  - Create sustainable rate structures
  - Reduce reliance on state funding
  - Decrease dependency on declining federal dollars

## Outcomes

- Better protection of water quality
- Business attraction and retention
- More desirable communities

## A few things to remember

- Economic prosperity requires quality infrastructure
- The cost of quality infrastructure is heavily dependent on how it is managed
- Proactive management is much cheaper
- The attractiveness of a low interest loan can't be canceled out by red tape

### To make this happen

- Drafting legislative language
- Issuance of voter approved bonds
- Streamlining current loan program may require legislative action

Thank You!